

Message Text

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PAGE 01 PARIS 10321 071913Z
ACTION EUR-12

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PASS TREASURY, FEDERAL RESERVE, COMMERCE

E. O. 11652: N/A
TAGS: EFIN, FR
SUBJECT: THE BOURSE RESPONDS TO A TAX DEFERRAL

1. IN ORDER TO ARREST A CONTINUING DECLINE IN STOCK PRICES, WHICH IN ADDITION TO ITS DEPRESSING PSYCHOLOGICAL ASPECTS WAS CLEARLY BEGINNING TO ADVERSELY AFFECT THE ABILITY OF FRENCH FIRMS TO FINANCE NEW INVESTMENTS, THE GOF HAS DECIDED TO DELAY APPLICATION OF THE NEW CAPITAL GAINS TAX BY ONE YEAR FROM JANUARY 1, 1978, TO JANUARY 1, 1979. INVESTOR INTEREST, MAINLY INSTITUTIONAL, IN FRENCH SHARES WHICH AS REPORTED EARLIER ARE AT BARGAIN BASEMENT PRICES IN THEIR PRICE/EARNINGS RATIOS RESPONDED STRONGLY TODAY AS THE AGEFI INDEX ROSE FROM 67.21 TO 69.62.

2. IN A RELATED DECISION, AIMED TO BOTH REASSURE AND PROVIDE FISCAL RELIEF PARTICULARLY FOR MEDIUM AND SMALL SCALE ENTERPRISES, THE GOF HAS LIMITED THE RATE OF INCREASE IN THE PROFESSIONAL TAX IN 1976 TO NO MORE THAN 90 PERCENT OF THE RATE OF INCREASE FOR 1975. THIS CHANGE MAY ENCOURAGE INVESTMENT BY SMALL
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PAGE 02 PARIS 10321 071913Z

AND MEDIUM SCALE FIRMS.

3. WHILE REACTION TO BOTH DECISIONS HAVE BEEN FAVORABLE, IT REMAINS TO BE SEEN WHETHER THE EFFECT WILL BE MORE PSYCHOLOGICAL THAN REAL. MANY FRENCH SHARES WERE UNDERPRICED BY CONVENTIONAL STANDARDS OF PRICE/EARNING RATIOS COMPARED TO YIELDS

ON OTHER KINDS OF SECURITIES. THUS, A TECHNICAL RECOVERY AND SOME PROFIT TAKING CLEARLY WAS POSSIBLE. THE TAX DECISION APPARENTLY HAS TRIGGERED SUCH DEVELOPMENTS. THE IMPORTANT QUESTION IS WHETHER OR NOT THIS WILL LEAD TO A NET RISE IN NEW STOCK ISSUES REFLECTING INCREASED INVESTMENT.

4. THESE CHANGES ALSO RAISE THE QUESTION OF FISCAL REFORM. THE CAPITAL GAINS AND PROFESSIONAL TAXES WERE HERALDED AS REFORMS BY THE PRESIDENT AND PASSED OVER BITTER OPPOSITION, MAINLY WITHIN THE RPR. IN RETROSPECT NEITHER IS MUCH OF A REFORM. THE PROFESSIONAL TAX, BECAUSE IT TURNED OUT TO BE VIRTUALLY INCOMPREHENSIBLE IN APPLICATION WITH SOME VERY REAL DISCRIMINATORY ASPECTS AND VIRTUALLY CONFISCATORY RATES FOR SOME FIRMS. THE CAPITAL GAINS TAX, BECAUSE UNLIKE THE CASE OF THE U.S., JAPAN, ETC., IT WAS NOT WITHIN THE CONTEXT OF A BROAD BASED INCOME TAX WHICH PROVIDED AN EFFECTIVE LOWER RATE FOR CAPITAL GAINS AGAINST THE TAX ON TOTAL INCOME BUT A TAX IN ADDITION TO TOTAL INCOME TAXES LEVIED ON ALL FORMS OF INVESTMENT. IN THE CONTEXT OF A BROADER FISCAL REFORM, THE GOF MIGHT WELL DECIDE TO QUIETLY BURY THESE "REFORMS" WHICH SO FAR HAVE HAD THE PRINCIPLE EFFECT OF FURTHER DISCOURAGING INVESTMENT IN AN OVERALL ECONOMIC CLIMATE THAT HAS HARDLY BEEN CONDUCIVE TO INVESTMENT IN ANY CASE. GAMMON

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Sent Date: 07-Apr-1977 12:00:00 am
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